

## Internal Revenue Service

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Department of the Treasury  
Washington, DC 20224

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Person To Contact:  
, ID No.

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PLR-128519-15

Date:  
February 24, 2016

Distributing 1 =

Distributing 2 =

Distributing 3 =

Controlled =

Foreign Parent =

FSub 1 =

FSub 2 =

PS 1 =

Sub 1 =

Sub 2 =

Sub 3 =

DE 1 =

DE 2 =

DE 3 =

DE 4 =

Business A, =  
which includes  
Segment B

Date 1 =

Date 2 =

Date 3 =

Date 4 =

a =

b =

c =

d =

e =

Dear :

This letter is in response to your representative's August 26, 2015 letter requesting a ruling on certain federal income tax consequences of a proposed transaction. The information submitted in that letter and in subsequent correspondence is summarized below.

The ruling contained in this letter is based upon facts and representations submitted by the taxpayer and accompanied by a penalties of perjury statement executed by an appropriate party. This office has not verified any of the materials submitted in support of the request for a ruling. Verification of the facts, representations, and other information may be required as part of the audit process.

This letter is issued pursuant to § 6.03 of Rev. Proc. 2016-1, 2016-1 I.R.B. 1, regarding a significant issue under § 355 of the Internal Revenue Code (the "Code"). The ruling contained in this letter only addresses a discrete legal issue involved in the transaction described herein. This office expresses no opinion as to the overall tax consequence of the transaction or as to any issue not specifically addressed by the ruling below.

### **Facts**

Foreign Parent, through Distributing 3 and its subsidiaries (the "Distributing 3 SAG"), has actively conducted multiple lines of business, including Business A, but not including Segment B.

On Date 4 (a date after Date 1), Foreign Parent wholly owned FSub 1 which owned all of the issued and outstanding common shares in PS 1, an entity that is treated as a partnership for federal income tax purposes.

PS 1 owned a percent of the vote and b percent of the value of Distributing 3, a holding company and common parent of an affiliated group of corporations that filed a consolidated federal income tax return. FSub 1 owned the remaining c percent of the vote and d percent of the value of Distributing 3.

Distributing 3 wholly owned Sub 2, a single member limited liability company ("LLC") that is treated as a corporation for federal income tax purposes. Sub 2 wholly owned DE 4, an LLC that is disregarded as a separate entity for federal income tax purposes. DE 4 employs three employees (the "Employees") that are engaged in the business of Segment B.

On Date 1, Foreign Parent, directly and through a disregarded entity, DE 3, acquired FSub 2 from a third party in a taxable stock acquisition (the "FSub 2 Acquisition"). DE 3 was a member of a separate chain of corporations owned by Foreign Parent and was not a member of the Distributing 3 SAG.

FSub 2 indirectly owned all of the common stock of Sub 1, a common parent of an affiliated group of corporations that filed a consolidated federal income tax return. Sub 1 wholly owned Distributing 2 and Distributing 2 wholly owned Distributing 1. Distributing 1 wholly owned Sub 3. Distributing 1 conducted Business A, which includes Segment B. Sub 3 held several contracts related to Segment B, including certain related accounts receivable and deferred revenue (the "Contracts").

On Date 2, in exchange for a note, Distributing 3 through DE 2, an LLC that is disregarded as a separate entity for federal income tax purposes, acquired Sub 1 from an indirect subsidiary of FSub 2. Following the acquisition, Sub 1 converted into an LLC and was re-named DE 1. The acquisition of Sub 1 and its subsequent conversion into an LLC was intended to be an acquisitive asset reorganization under section 368(a)(1)(D) (the "Reorganization").

On Date 3, Distributing 1 formed Controlled. On Date 4, Distributing 1 contributed Segment B to Controlled.

### **Proposed Transaction**

For what have been represented to be valid business purposes, the taxpayer proposes the following transaction (the “Proposed Transaction”)

- (i) Distributing 1 will distribute all of the issued and outstanding membership interest in Controlled to Distributing 2.
- (ii) Distributing 2 will distribute all of the issued and outstanding membership interest in Controlled to DE 1.
- (iii) DE 1 will sell all of the issued and outstanding membership interest in Controlled to Distributing 3.
- (iv) DE 4 will terminate the employment of the Employees and Controlled will rehire the Employees.
- (v) Sub 3 will sell the Contracts to Controlled in a taxable transaction.
- (vi) Distributing 3 will distribute all of the issued and outstanding membership interest in Controlled, pro rata, to PS 1 and to FSub 1.

### **Representations**

The taxpayer has made the following representations in connection with the Proposed Transaction:

- (a) For greater than e years, the Distributing 3 SAG has been engaged in the active conduct of Business A.
- (b) Distributing 1 has been engaged in the active conduct of Business A, including Segment B, throughout the period following Distributing 3's acquisition of Sub 1 in the Reorganization.
- (c) Controlled has been engaged in the active conduct of the Segment B business since the contribution of Segment B by Distributing 1 to Controlled on Date 4.
- (d) Sub 3 will recognize no gain or loss on the sale of the Contracts to Controlled.

### **Ruling**

Based solely on the information provided and the representations set forth

above, we rule as follows:

- (1) Distributing 3's acquisition of Segment B in the Reorganization was an expansion of Distributing 3's Business A within the meaning of § 1.355-3(b)(3)(ii).

### **Caveat**

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any transaction or item discussed or referenced in this letter.

### **Procedural Statements**

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

A copy of this letter must be attached to any income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of the letter ruling.

Pursuant to the power of attorney on file in this matter, a copy of this letter is being sent to your authorized representatives.

Sincerely,

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Richard K. Passales,  
Senior Counsel, Branch 4  
Office of Associate Chief Counsel (Corporate)

cc: